

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2005-125-G**

September 1, 2009

IN RE:

Piedmont Natural Gas Company's	)	
Application of the Natural Gas	)	<b>SETTLEMENT AGREEMENT</b>
Rate Stabilization Act To Its Rates	)	
and Charges	)	

This Settlement Agreement is made by and among the South Carolina Office of Regulatory Staff (“ORS”), South Carolina Energy Users Committee (“SCEUC”), and Piedmont Natural Gas Company, Inc. (“PNG”) (collectively referred to as the “Parties” or sometimes individually as a “Party”).

WHEREAS, by Public Service Commission of South Carolina (“Commission”) Order Nos. 2005-491, dated September 28, 2005, and 2005-567, dated October 13, 2005, the Commission established a baseline for PNG under the Natural Gas Rate Stabilization Act (the “Act”) and approved certain accounting adjustments proposed by ORS and PNG;

WHEREAS, pursuant to S.C. Code Ann. § 58-5-455 (Supp. 2008), PNG filed its Quarterly Monitoring Report and Proposed Rate Changes with the Commission on June 15, 2009 for the review period consisting of April 1, 2008 through March 31, 2009 (“Review Period”);

WHEREAS, the Report of ORS’s examination of PNG’s Monitoring Report for the Twelve-Month Period Ending March 31, 2009, pursuant to the Act, was filed with the Commission on September 1, 2009;

WHEREAS, the Parties to this Settlement Agreement are the only parties of record in the above-captioned docket;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of this proceeding would be in their best interest;

WHEREAS, following those discussions the Parties have each determined that their interests, and ORS has determined that the public interest, would be best served by settling the above-captioned case under the terms and conditions set forth below:

1. PNG will implement rates for the twelve-month period beginning with the first billing cycle of November 2009 calculated on the basis of an 11.2% Return On Equity ("ROE") instead of the 12.6% ROE which PNG is authorized under Commission Orders No. 2002-761, 2005-491, and 2005-567.

2. The Parties agree that the following are the only attachments to this Settlement Agreement: Schedule 1 (Net Operating Income and Rate of Return); Schedule 2 (Explanations of Accounting and Pro Forma Adjustments); and Schedule 3 (Average Weighted Cost of Capital).

3. The Parties agree that PNG will adopt the accounting adjustments of ORS as set forth in Schedule 2 as attached to this Settlement Agreement.

4. The Parties agree that, based upon the accounting adjustments proposed by ORS and adopted by PNG, and the agreement of PNG to implement rates based on an 11.2% ROE, South Carolina ratepayers will realize an increase in current margin rates totaling \$1,110,000. As shown in the ORS staff report, this equates to a reduction of \$2,766,000 for South Carolina ratepayers when compared to rates calculated on PNG's authorized 12.6% ROE.

5. The Parties agree to an adjustment for Demand Cost Over-Recovery of \$1,616,062.

6. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

7. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions in future proceedings. Should the Commission decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty.

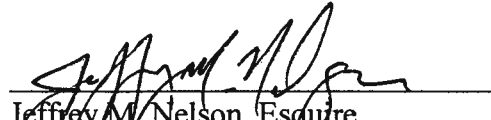
8. This Settlement Agreement shall be interpreted according to South Carolina law.

9. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

[SIGNATURE PAGES FOLLOW]

WE AGREE:

**Representing and binding the Office of Regulatory Staff**

A handwritten signature in black ink, appearing to read "Jeffrey M. Nelson", is written over a horizontal line.

Jeffrey M. Nelson, Esquire

Office of Regulatory Staff

1401 Main Street, Suite 900

Columbia, SC 29201

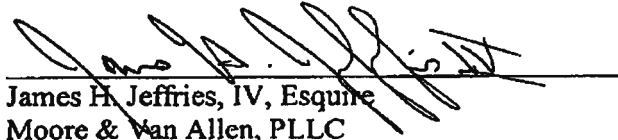
Phone: (803) 737-0823

Fax: (803) 737-0895

Email: [jnelson@regstaff.sc.gov](mailto:jnelson@regstaff.sc.gov)

WE AGREE:

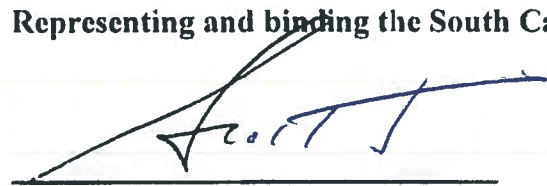
**Representing and binding Piedmont Natural Gas Company, Inc.**

A handwritten signature in black ink, appearing to read "James H. Jeffries, IV", is written over a horizontal line.

James H. Jeffries, IV, Esquire  
Moore & Van Allen, PLLC  
100 North Tryon Street, Ste. 4700  
Charlotte, NC 28202  
Phone: 704-331-1079  
Fax: 704-339-5879  
Email: [jimjeffries@mvalaw.com](mailto:jimjeffries@mvalaw.com)

WE AGREE

**Representing and binding the South Carolina Energy Users Committee**

A handwritten signature in blue ink, appearing to read "Scott Elliott", is written over a horizontal line.

Scott Elliott, Esquire  
Elliott & Elliott, P.A.  
721 Olive Street  
Columbia, SC 29205  
Phone: (803) 771-0555  
Fax: (803) 771-8010  
Email: [selliott@elliottlaw.us](mailto:selliott@elliottlaw.us)

Piedmont Natural Gas Company  
South Carolina Operations  
Net Operating Income and Rate of Return  
For the Twelve Months Ended March 31, 2009  
Docket No. 2005-125-G

	(1) Per Regulatory Books	(2) ORS Accounting and Pro Forma Adjustments	(3) ORS As Adjusted	(4) Adjustments for Proposed Margin Increase	(5) Adjustments for Demand Cost Under/(Over) Recovery	(6) Total After Proposed Rates
<b><u>Operating Revenues</u></b>						
1 Sale and Transportation of Gas	\$ 211,739,218	\$ (25,535,647)	(1) \$ 186,203,571	\$ 1,110,000	(12) \$ (1,616,062)	(18) \$ 185,697,509
2 Other Operating Revenues	1,015,955	0	1,015,955			1,015,955
3 Total Operating Revenues	212,755,173	(25,535,647)	187,219,526	1,110,000	(1,616,062)	186,713,464
<b><u>Operating Expenses</u></b>						
4 Cost of Gas	146,337,947	(32,503,768)	(2) 113,834,179		(1,604,626)	(19) 112,229,553
5 Operations and Maintenance	27,683,975	(513,505)	(3) 27,170,470	2,480	(3,611)	(20) 27,169,339
6 Depreciation	11,852,361	679,203	(4) 12,531,564			12,531,564
7 General Taxes	6,566,124	(194,687)	(5) 6,371,437	5,374	(7,825)	(21) 6,368,986
8 State Income Taxes	1,098,622	(54,504)	(6) 1,044,118	55,107		(15) 1,099,225
9 Federal Income Taxes	4,268,139	2,652,446	(7) 6,920,585	366,463		(16) 7,287,048
10 Amortization of Investment Tax Credits	(52,336)		(52,336)			(52,336)
11 Total Operating Expenses	197,754,832	(29,934,815)	167,820,017	429,424	(1,616,062)	166,633,379
12 Net Operating Income	15,000,341	4,399,168	19,399,509	680,576	0	20,080,085
13 Interest on Customers' Deposits	(131,468)		(131,468)			(131,468)
14 Amortization of Debt Redemption Premium	(14,253)	414	(8) (13,839)			(13,839)
15 Allowance for Funds Used During Construction	123,169		123,169			123,169
16 Customer Growth	(1,487)	(259)	(9) (1,746)	(61)	(17)	(1,807)
17 Net Operating Income for Return	\$ 14,976,302	\$ 4,399,323	\$ 19,375,625	\$ 680,515	\$ 0	\$ 20,056,140
<b><u>Original Cost Rate Base:</u></b>						
18 Plant in Service	\$ 382,824,720	0	\$ 382,824,720			\$ 382,824,720
19 Accumulated Depreciation	(150,110,003)		(150,110,003)			(150,110,003)
20 Net Plant in Service	232,714,717	0	232,714,717			232,714,717
Add:						
21 Construction Work in Progress	1,861,262		1,861,262			1,861,262
22 Materials and Supplies	24,945,242		24,945,242			24,945,242
23 Cash Working Capital	(471,109)	(98,171)	(10) (569,280)			(569,280)
Deduct:						
24 Customers' Advances	0		0			0
25 Customers' Deposits	4,027,297		4,027,297			4,027,297
26 Accumulated Deferred Income Taxes	37,895,183	84,072	(11) 37,979,255			37,979,255
27 Unclaimed Funds	346,447		346,447			346,447
28 Original Cost Rate Base:	\$ 216,781,185	\$ (182,243)	\$ 216,598,942			\$ 216,598,942
29 Rate of Return	6.91%		8.95%			9.26%
30 Return on Equity	7.02%		10.65%			11.20%

**Piedmont Natural Gas Company**  
**South Carolina Operations**  
**Explanations of Accounting and Pro Forma Adjustments**  
**Twelve Months Ended March 31, 2009**  
**Docket No. 2005-125-G**

<u>Line No.</u>	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
<b>1</b>	<b><u>Operating Revenues - Sale and Transportation of Gas</u></b>		
	To decrease revenues on a going-level basis.	\$ (25,535,647)	\$ (25,535,647)
	<b><u>Total Operating Revenues - Sale and Transportation of Gas</u></b>	<b>\$ (25,535,647)</b>	<b>\$ (25,535,647)</b>
<b>2</b>	<b><u>Cost of Gas</u></b>		
	To decrease cost of gas on a going-level basis.	\$ (32,503,768)	\$ (32,503,768)
	<b><u>Total Cost of Gas</u></b>	<b>\$ (32,503,768)</b>	<b>\$ (32,503,768)</b>
<b>3</b>	<b><u>Operations and Maintenance Expenses</u></b>		
a.	To annualize the payroll expense as of March 31, 2009, and to disallow officer salary increases in conformance with PSC Order No. 2002-761, dated November 1, 2002.	\$ (123,781)	\$ (123,781)
b.	To decrease expenses for the salary and payroll investment plan. The plan allows participants to defer a portion of their base salary and the Company matches a portion of the participant's contribution.	(19,860)	(19,860)
c.	Adjustment 3 c. not used.		
d.	To adjust pension costs included in the filing.	(89,073)	(89,073)
e.	To adjust uncollectible gas cost expense utilizing the method approved in Docket No. 2006-4-G, Order No. 2006-527, dated October 11, 2006. This removes uncollectible gas cost expense from base rates and records the amount in account #253.04. The applicable uncollectible gas cost rate is .22345%.	(161,113)	(161,113)
f.	To decrease expenses for allocations to non-utility activities.	(6,914)	(6,914)
g.	To decrease expenses for the Long-Term Incentive Plan.	(182,564)	(182,564)
h.	To decrease expenses for the Short-Term Incentive Plan.	(60,168)	(60,168)
i.	To increase expenses for the MVP Incentive Plan.	187,488	187,488



## Settlement Schedule 2

**Piedmont Natural Gas Company**  
**South Carolina Operations**  
**Explanations of Accounting and Pro Forma Adjustments**  
**Twelve Months Ended March 31, 2009**  
**Docket No. 2005-125-G**

<u>Line No.</u>	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
j.	To increase expenses for group insurance.	10,054	10,054
k.	To increase expenses for the Piedmont Town Center lease.	3,443	3,443
l.	To decrease expenses for the South Carolina assessment fee.	(1,325)	(13,043)
m.	To decrease expenses for items that are nonallowable for ratemaking purposes.	(140,557)	(210,218)
n.	To increase expenses for amortization of early retirement incentive.	151,229	151,229
o.	To increase expenses for Piedmont Town Center CAM expense.	<u>1,015</u>	<u>1,015</u>
	<b><u>Total Operations and Maintenance Expense</u></b>	<b>\$ <u>(432,126)</u></b>	<b>\$ <u>(513,505)</u></b>
<b>4</b>	<b><u>Depreciation Expense</u></b>		
	To increase depreciation expense on a going-level basis using the most current depreciation study rates.	\$ <u>679,203</u>	\$ <u>679,203</u>
	<b><u>Total Depreciation Expense</u></b>	<b>\$ <u>679,203</u></b>	<b>\$ <u>679,203</u></b>
<b>5</b>	<b><u>General Taxes</u></b>		
a.	To increase property taxes on a going-level basis.	\$ 2,091	\$ 2,091
b.	To decrease payroll tax expense.	(73,140)	(73,140)
c.	To decrease franchise taxes (rate of .3%) and gross receipts tax (rate of .18418%) for the adjustment made to decrease revenues on a going-level basis.	<u>0</u>	<u>(123,638)</u>
	<b><u>Total General Taxes</u></b>	<b>\$ <u>(71,049)</u></b>	<b>\$ <u>(194,687)</u></b>
<b>6</b>	<b><u>State Income Taxes</u></b>		
	To adjust state income taxes (rate of 5%) to reflect the impact on income of accounting and pro forma adjustments.	\$ <u>(64,729)</u>	\$ <u>(54,504)</u>
	<b><u>Total State Income Taxes</u></b>	<b>\$ <u>(64,729)</u></b>	<b>\$ <u>(54,504)</u></b>

**Piedmont Natural Gas Company**  
**South Carolina Operations**  
**Explanations of Accounting and Pro Forma Adjustments**  
**Twelve Months Ended March 31, 2009**  
**Docket No. 2005-125-G**

<b><u>Line No.</u></b>	<b><u>Description</u></b>	<b><u>Per Piedmont</u></b>	<b><u>Per ORS</u></b>
<b>7</b>	<b><u>Federal Income Taxes</u></b>		
	To adjust federal income taxes (rate of 35%) to reflect the impact on income of accounting and pro forma adjustments.	\$ <u>2,605,350</u>	\$ <u>2,652,446</u>
	<b><u>Total Federal Income Taxes</u></b>	\$ <u>2,605,350</u>	\$ <u>2,652,446</u>
<b>8</b>	<b><u>Amortization of Debt Redemption Premium</u></b>		
	To increase net operating income for amortization of debt redemption premium.	\$ <u>414</u>	\$ <u>414</u>
	<b><u>Total Amortization of Debt Redemption Premium</u></b>	\$ <u>414</u>	\$ <u>414</u>
<b>9</b>	<b><u>Customer Growth</u></b>		
	To adjust net operating income to reflect an anticipated decrease in customer growth (rate of (.009.%)) following the adjustments to operating revenues and expenses.	\$ <u>(425)</u>	\$ <u>(259)</u>
	<b><u>Total Customer Growth</u></b>	\$ <u>(425)</u>	\$ <u>(259)</u>
<b>10</b>	<b><u>Cash Working Capital</u></b>		
	To decrease cash working capital following the pro forma adjustments to operation and maintenance expenses (rate of 12.5%) as reflected in the Original Filing.	\$ <u>(54,016)</u>	\$ <u>(98,171)</u>
	<b><u>Total Cash Working Capital</u></b>	\$ <u>(54,016)</u>	\$ <u>(98,171)</u>
<b>11</b>	<b><u>Accumulated Deferred Income Taxes</u></b>		
	To adjust accumulated deferred income taxes to reflect the amount attributable to South Carolina.	\$ <u>0</u>	\$ <u>84,072</u>
	<b><u>Total Operating Revenues - Sale and Transportation of Gas</u></b>	\$ <u>0</u>	\$ <u>84,072</u>
<b>12</b>	<b><u>Operating Revenues - Sale and Transportation of Gas</u></b>		
	To increase revenues from the sale and transportation of gas for the proposed margin increase. ORS has recalculated this adjustment utilizing all ORS adjustments to operating revenues.	\$ <u>4,134,798</u>	\$ <u>1,110,000</u>
	<b><u>Total Operating Revenues - Sale and Transportation of Gas</u></b>	\$ <u>4,134,798</u>	\$ <u>1,110,000</u>

## Settlement Schedule 2

Piedmont Natural Gas Company  
South Carolina Operations  
Explanations of Accounting and Pro Forma Adjustments  
Twelve Months Ended March 31, 2009  
Docket No. 2005-125-G

Line No.	Description	Per Piedmont	Per ORS
<b>13</b>	<b><u>Operations and Maintenance Expenses</u></b>		
a.	To adjust the provision for uncollectible accounts (.22345%) for the proposed margin increase.	\$ 9,239	\$ 2,480
b.	To increase the utility license fee (rate of .3%) following the adjustment to operating revenues.	12,377	0
	<b><u>Total Operations and Maintenance Expenses</u></b>	<b><u>\$ 21,616</u></b>	<b><u>\$ 2,480</u></b>
<b>14</b>	<b><u>General Taxes</u></b>		
	To adjust franchise taxes (rate of .3%) and gross receipts tax (rate of .18418%) for the proposed margin increase.	\$ 0	\$ 5,374
	<b><u>Total General Taxes</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 5,374</u></b>
<b>15</b>	<b><u>State Income Taxes</u></b>		
	To adjust state income taxes (rate of 5%) to reflect the impact on income from the proposed margin increase.	\$ 205,659	\$ 55,107
	<b><u>Total State Income Taxes</u></b>	<b><u>\$ 205,659</u></b>	<b><u>\$ 55,107</u></b>
<b>16</b>	<b><u>Federal Income Taxes</u></b>		
	To adjust federal income taxes (rate of 35%) to reflect the impact on income from the proposed margin increase.	\$ 1,367,633	\$ 366,463
	<b><u>Total Federal Income Taxes</u></b>	<b><u>\$ 1,367,633</u></b>	<b><u>\$ 366,463</u></b>
<b>17</b>	<b><u>Customer Growth</u></b>		
	To adjust net operating income to reflect an anticipated decrease in customer growth (rate of (.009%)) following the proposed margin increase.	\$ (254)	\$ (61)
	<b><u>Total Customer Growth</u></b>	<b><u>\$ (254)</u></b>	<b><u>\$ (61)</u></b>
<b>18</b>	<b><u>Operating Revenues - Sale and Transportation of Gas</u></b>		
	To decrease the revenue requirement for the sale and transportation of gas associated with demand cost over-recovery.	\$ (1,613,014)	\$ (1,616,062)
	<b><u>Total Operating Revenues - Sale and Transportation of Gas</u></b>	<b><u>\$ (1,613,014)</u></b>	<b><u>\$ (1,616,062)</u></b>



**Piedmont Natural Gas Company  
South Carolina Operations  
Average Weighted Cost of Capital  
Docket No. 2005-125-G**

**Settlement Schedule 3**

<u>Description</u>	<u>Capital Structure</u>	<u>Ratio</u>	<u>Regulatory Per Books</u>				<u>As Adjusted</u>				<u>After Proposed Increase</u>			
			<u>Rate Base</u>	<u>Embedded Cost/Return</u>	<u>Overall Cost/Return</u>	<u>Income For Return</u>	<u>Rate Base</u>	<u>Embedded Cost/Return</u>	<u>Overall Cost/Return</u>	<u>Income For Return</u>	<u>Rate Base</u>	<u>Embedded Cost/Return</u>	<u>Overall Cost/Return</u>	<u>Net Operating Income</u>
Long-Term Debt	765,857,535	43.76%	94,863,447	6.76%	2.96%	6,412,769	94,783,697	6.76%	2.96%	6,407,378	94,783,697	6.76%	2.96%	6,407,378
Common Equity	984,273,944	56.24%	121,917,738	7.02%	3.95%	8,563,533	121,815,245	10.65%	5.99%	12,968,247	121,815,245	11.20%	6.30%	13,648,762
<b>Total</b>	<u>1,750,131,479</u>	<u>100.00%</u>	<u>216,781,185</u>		<u>6.91%</u>	<u>14,976,302</u>	<u>216,598,942</u>		<u>8.95%</u>	<u>19,375,625</u>	<u>216,598,942</u>		<u>9.26%</u>	<u>20,056,140</u>

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**

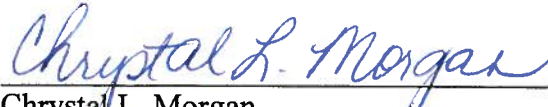
**DOCKET NO. 2005-125-G**

IN RE:	)	
Notice of Election of Piedmont Natural Gas	)	
Company, Incorporated for Application of the	)	<b>CERTIFICATE OF</b>
Natural Gas Rate Stabilization Act to Its Rates	)	<b>SERVICE</b>
and Charges and Notice of Filing of Quarterly	)	
Monitoring Report and Proposed Rate Changes	)	
(Years 2005 - 2008)	)	

This is to certify that I, Chrystal L. Morgan, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the **SETTLEMENT AGREEMENT** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

Scott Elliott, Esquire  
Elliott & Elliott, P.A.  
721 Olive Street  
Columbia, SC, 29205

James H. Jeffries, IV, Esquire  
Piedmont Natural Gas Company, Inc.  
100 North Tryon Street, Ste. 4700  
Charlotte, NC, 28202

  
\_\_\_\_\_  
Chrystal L. Morgan

September 1, 2009  
Columbia, South Carolina